Greenlight Capital Re, Ltd.
Form 10-Q
November 13, 2007

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2007.

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 001-33493

GREENLIGHT CAPITAL RE, LTD. (Exact Name of Registrant as Specified in Its Charter)

CAYMAN ISLANDS N/A
(State or Other Jurisdiction of
Incorporation or Organization) (I.R.S. Employer
Identification No.) 802 WEST BAY ROAD
THE GRAND PAVILION
PO BOX 31110
GRAND CAYMAN
CAYMAN ISLANDS KY1-1205 (Address of Principal Executive Offices) (Zip Code)

(345)
745-4573 (Registrant's Telephone Number, Including Area Code)
Not Applicable

(Former Name, Former Address and Former Fiscal year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of ''accelerated filer and large accelerated filer'' in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Class A Ordinary Shares, $.10
par value 29,847,787 (Class) (Outstanding as of November 13, 2007)

GREENLIGHT CAPITAL RE, LTD.

TABLE OF CONTENTS

Table of Contents

PART I — FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

GREENLIGHT CAPITAL RE, LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS

September 30, 2007 and December 31, 2006
(expressed in thousands of U.S. dollars, except per share and share amounts)

	September 30, 2007 (unaudited)	December 31, 2006 (audited)
Assets		
Investments in securities		
Fixed maturities, trading at fair value	$ 1,528	$ —
Equity investments, trading at fair value	482,424	238,799
Other investments, at estimated fair value	7,585	4,723
Total investments in securities	491,537	243,522
Cash and cash equivalents	119,982	82,704
Restricted cash and cash equivalents	403,873	154,720
Financial contracts receivable, at fair value	1,681	—
Investment income receivable	379	454
Reinsurance balances receivable	53,379	19,622
Loss and loss adjustment expense recoverables	7,462	—
Deferred acquisition costs	11,276	16,282
Unearned premiums ceded	16,207	—
Other assets	805	1,304
Total assets	$ 1,106,581	$ 518,608
Liabilities and shareholders' equity		
Liabilities		
Securities sold, not yet purchased, at fair value	$ 345,861	$ 124,044
Dividends payable on securities sold, not yet purchased	1,057	354
Financial contracts payable, at fair value	32,413	8,640
Loss and loss adjustment expense reserves	39,375	4,977
Unearned premium reserves	81,994	47,546
Reinsurance balances payable	22,364	4,236
Funds withheld	5,677	—
Accounts payable and accrued expenses	1,500	2,020
Performance and management fees payable to related party	150	14,624
Total liabilities	530,391	206,441
Shareholders' equity		
Preferred share capital (par value $0.10; authorized, 50,000,000; none issued)	—	—
Ordinary share capital (Class A: par value $0.10; authorized, 100,000,000; issued and outstanding, 29,847,787 (2006: 16,507,228); Class B: par value $0.10; authorized, 25,000,000; issued and outstanding, 6,254,949 (2006: 5,050,000))	3,610	2,156
Additional paid-in capital	476,457	219,972
Retained earnings	96,123	90,039
Total shareholders' equity	576,190	312,167
Total liabilities and shareholders' equity	$ 1,106,581	$ 518,608

The accompanying Notes to the Interim Condensed Consolidated Financial Statements are an integral part of the Interim Condensed Consolidated Financial Statements.

Table of Contents

GREENLIGHT CAPITAL RE, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

For the three and nine months ended September 30, 2007 and 2006
(expressed in thousands of U.S. dollars, except per share and share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenues				
Gross premiums written	$ 19,766	$ 24,561	$ 123,275	$ 36,223
Gross premiums ceded	(209)	—	(28,486)	—
Net premiums written	19,557	24,561	94,789	36,223
Change in net unearned premium reserves	11,155	(14,520)	(18,184)	(23,769)
Net premiums earned	30,712	10,041	76,605	12,454
Net investment income (loss)	(4,776)	16,641	707	41,028
Interest income on related party promissory note receivable	—	265	—	827
Total revenues	25,936	26,947	77,312	54,309
Expenses				
Loss and loss adjustment expenses incurred	11,339	3,008	31,465	3,008
Acquisition costs	13,458	4,282	30,685	5,426
General and administrative expenses	3,232	2,119	9,078	6,304
Total expenses	28,029	9,409	71,228	14,738
Net income (loss)	$ (2,093)	$ 17,538	$ 6,084	$ 39,571
Earnings (loss) per share				
Basic	$ (0.06)	$ 0.82	$ 0.21	$ 1.86
Diluted	(0.06)	0.82	0.21	1.85
Weighted average number of Ordinary Shares used in the determination of				
Basic	35,981,312	21,396,436	28,393,955	21,326,111
Diluted	35,981,312	21,492,224	28,855,816	21,408,898

The accompanying Notes to the Interim Condensed Consolidated Financial Statements are an integral part of the Interim Condensed Consolidated Financial Statements.

4

Table of Contents

GREENLIGHT CAPITAL RE, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)

For the nine months ended September 30, 2007 and 2006
(expressed in thousands of U.S. dollars, except per share and share amounts)

	Ordinary Shares issued		Additional paid-in capital	Related party promissory note receivable	Retained earnings	Total Shareholders' Equity
	Number of shares	Share capital				
Balance at December 31, 2006	21,557,228	$ 2,156	$ 219,972	$ —	$ 90,039	$ 312,167
Issue of Class A Ordinary Share capital	11,913,929	1,191	207,144	—	—	208,335
Issue of Class B Ordinary Share capital	2,631,579	263	49,737	—	—	50,000
Options and awards expenses	—	—	2,233	—	—	2,233
IPO expenses	—	—	(2,629)	—	—	(2,629)
Net income	—	—	—	—	6,084	6,084
Balance at September 30, 2007	36,102,736	$ 3,610	$ 476,457	$ —	$ 96,123	$ 576,190
Balance at December 31, 2005	21,231,666	$ 2,123	$ 212,871	$ (16,212)	$ 33,040	$ 231,822
Issue of Class A Ordinary Share capital	168,062	17	1,975	—	—	1,992
Options and awards expenses	—	—	2,226	—	—	2,226
Principal repayments received	—	—	—	2,899	—	2,899
Net income	—	—	—	—	39,571	39,571
Balance at September 30, 2006	21,399,728	$ 2,140	$ 217,072	$ (13,313)	$ 72,611	$ 278,510

The accompanying Notes to the Interim Condensed Consolidated Financial Statements are an integral part of the Interim Condensed Consolidated Financial Statements.

5

Table of Contents

GREENLIGHT CAPITAL RE, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

For the nine months ended September 30, 2007 and 2006
(expressed in thousands of U.S. dollars, except per share and share amounts)

	2007	2006
Cash (used in) provided by		
Operating activities		
Net income	$ 6,084	$ 39,571
Adjustments to reconcile net income to net cash (used in) provided by operating activities		
Net change in unrealized losses on securities	16,651	828
Net realized gains on securities	(34,411)	(50,923)
Stock options and awards expense	2,233	2,226
Depreciation	30	17
Purchase of securities	(741,016)	(189,880)
Sales of securities	732,578	191,957
Change in		
Restricted cash and cash equivalents	(249,153)	(16,471)
Financial contracts receivable, at fair value	(1,681)	(159)
Investment income receivable	75	(305)
Reinsurance balances receivable	(33,757)	(14,061)
Loss and loss adjustment expense recoverables	(7,462)	—
Deferred acquisition costs	5,006	(6,767)
Unearned premiums ceded	(16,207)	—
Other assets	469	206
Dividends payable on securities sold, not yet purchased	703	127
Financial contracts payable, at fair value	23,773	4,075
Loss and loss adjustment expense reserves	34,398	1,872
Unearned premium reserves	34,448	23,769
Reinsurance balances payable	18,128	3,640
Funds withheld	5,677	—
Accounts payable and accrued expenses	(520)	463
Performance and management fees payable to related party	(14,474)	3,268
Net cash used in operating activities	(218,428)	(6,547)
Investing activities		
Purchase of fixed assets	—	(200)
Proceeds on disposal of fixed assets	—	38
Net cash used in investing activities	—	(162)
Financing activities		
Net proceeds from share issue	255,706	1,992
Collection of related party promissory note receivable	—	2,899
Net change in interest receivable on related party promissory note receivable	—	318
Net cash provided by financing activities	255,706	5,209
Net increase (decrease) in cash and cash equivalents	37,278	(1,500)
Cash and cash equivalents at beginning of the period	82,704	7,218
Cash and cash equivalents at end of the period	$ 119,982	$ 5,718
Supplementary information:		
Interest paid in cash	$ 2,360	$ 1,326
Interest received in cash	10,764	1,145

The accompanying Notes to the Interim Condensed Consolidated Financial Statements are an integral part of the Interim Condensed Consolidated Financial Statements.

Table of Contents

GREENLIGHT CAPITAL RE, LTD.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2007 and 2006
(expressed in thousands of U.S. dollars, except per share and share amounts)

1.

GENERAL

Greenlight Capital Re, Ltd. (the ''Company'') was incorporated as an exempted company under the Companies Law of the Cayman Islands on July 13, 2004. The Company's wholly owned subsidiary, Greenlight Reinsurance, Ltd. (the ''Subsidiary''), provides global specialty property and casualty reinsurance. The Subsidiary has an unrestricted Class ''B'' insurance license under Section 4(2) of the Cayman Islands Insurance Law. The Subsidiary commenced underwriting in April 2006.

These unaudited interim condensed consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (''U.S. GAAP'') and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete consolidated financial statements. These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2006. In the opinion of management, these unaudited interim condensed consolidated financial statements reflect all the normal recurring adjustments considered necessary for a fair presentation of the Company's financial position and results of operations as of the dates and for the periods presented.

The results for the nine months ended September 30, 2007 are not necessarily indicative of the results expected for the full year.

2.

Significant accounting policies

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the period. Actual results could differ from these estimates.

Loss and Loss Adjustment Expense Reserves

The Company establishes reserves for contracts based on estimates of the ultimate cost of all losses including losses incurred but not reported. These estimated ultimate reserves are based on reports received from ceding companies, historical experience as well as the Company's own actuarial estimates. These estimates are reviewed periodically and adjusted when deemed necessary. Since reserves are estimates, the final settlement of losses may vary from the reserves established and any adjustments to the estimates are recorded in the period in which they are determined.

Financial Instruments

Investments in Securities and Securities Sold, Not Yet Purchased

The Company’s investments in debt and equities that are classified as ‘‘trading securities’’ are valued based on the last reported sales price on the balance sheet dates as reported by a recognized exchange. Securities for which recognized exchange quotations are not readily available (e.g., private equity) are reported as other investments and are valued at management’s best estimate (utilizing the services of an investment advisor) of the fair market value based on prices received from market makers when available.

Table of Contents

Premiums and discounts on fixed income securities are amortized into net investment income over the life of the security.

For securities classified as trading securities, any realized and unrealized gains or losses are determined on the basis of specific identification method (by reference to cost and amortized cost, as appropriate) and included in net investment income in the condensed consolidated statements of income.

For securities for which exchange quotations are not readily available, any realized and unrealized gains or losses are determined on the basis of the specific identification method. Realized gains and losses are reported in net investment income in the condensed consolidated statements of income. Unrealized gains and losses, if any, are included in accumulated other comprehensive income as a separate component of shareholders' equity. A decline in market value of a security below cost that is deemed other than temporary is charged to earnings and results in the establishment of a new cost basis of the security.

Dividend income and expense are recorded on the ex-dividend date. Ex-dividend date is the date as of when the underlying security must have been traded to be eligible for the dividend declared.

Interest income and interest expense are recorded on an accrual basis.

Investments in Options

Amounts invested in call and put options are recorded as an asset or liability at inception. Subsequent to initial recognition, unexpired option contracts are recorded at fair market value, which is based upon the last quoted prices of the call and put options. Realized and unrealized gains and losses are included in net investment income in the condensed consolidated statements of income.

Investments in Total Return Swap Agreements

Total return swap agreements, included in financial contracts receivable and payable, are derivative financial instruments entered into whereby the Company is either entitled to receive or obligated to pay the product of a notional amount multiplied by the movement in an underlying security, which the Company does not own, over a specified time frame. In addition, the Company may also be obligated to pay or receive other payments based on either interest rate, dividend payments and receipts, or foreign exchange movements during a specified period. The Company measures its rights or obligations to the counterparty based on the fair market value movements of the underlying security together with any other payments due. These contracts are carried at estimated fair value, with the resultant unrealized gains and losses reflected in net investment income. Additionally, any changes in the value of amounts received or paid on swap contracts are reported as a gain or loss in net investment income in the condensed consolidated statements of income.

Earnings Per Share

Basic earnings per share is based on weighted average Ordinary Shares outstanding and excludes dilutive effects of stock options and unvested stock awards. Diluted earnings per share assumes the exercise of all dilutive stock options and stock awards using the treasury stock method.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Weighted average Ordinary Shares outstanding	35,981,312	21,396,436	28,393,955	21,326,111
Effect of dilutive service provider stock options	—	94,150	174,800	81,359
Effect of dilutive employee and director options and stock awards	—	1,638	287,061	1,428
	35,981,312	21,492,224	28,855,816	21,408,898

There were 208,000 and 1,073,000 anti-dilutive stock options outstanding for the nine months ended September 30, 2007 and 2006, respectively. Due to the Company’s net loss for the three months ended September 30, 2007, all 1,702,424 stock options and stock awards outstanding have been excluded from the computation of dilutive loss per share as their inclusion would have been anti-dilutive for the period.

Recently Issued Accounting Standards

In September 2006, the Financial Accounting Standards Board (''FASB'') issued SFAS No. 157, ''Fair Value Measurements.'' SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. SFAS No. 157 does not require any new fair value measurements. SFAS No. 157 is effective for the Company beginning January 1, 2008. Management has not completed its review of the new guidance; however, the effect of SFAS No. 157's implementation is not expected to be material to the Company's financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, ''The Fair Value Option for Financial Assets and Financial Liabilities.'' SFAS No. 159 permits entities to choose to measure eligible items at fair value at specified election dates. For items for which the fair value option has been elected, unrealized gains and losses are to be reported in earnings at each subsequent reporting date. The fair value option is irrevocable unless a new election date occurs, may be applied instrument by instrument, with a few exceptions, and applies only to entire instruments and not to portions of instruments. SFAS No. 159 provides an opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting. SFAS No. 159 is effective for the Company beginning January 1, 2008. The Company did not elect early adoption. Management has not completed its review of the new guidance; however, the effect of SFAS No. 159's implementation is not expected to be material to the Company's results of operations or financial position.

Additionally, SFAS No. 159 amends SFAS No. 115, ''Accounting for Certain Investments in Debt and Equity Securities,'' such that cash flows relating to trading securities must be classified in the Condensed Consolidated Statement of Cash Flows based on the nature and purpose for which the securities were acquired. Currently, the Company classifies cash flows from trading securities as operating activities. While the Company's management has not completed its review of SFAS No. 159, the Company anticipates that cash flows relating to trading securities may be classified as investing activities rather than operating activities beginning January 1, 2008.

3.

RETROCESSION

The Company utilizes retrocession agreements to reduce the risk of loss on business assumed. The Company currently has in place coverages that provide for recovery of a portion of certain loss and loss expenses incurred on certain contracts. Loss and loss adjustment expense recoverables from the retrocessionaires are recorded as assets. For the nine months ended September 30, 2007 loss and loss adjustment expenses incurred are net of loss and loss expenses recovered and recoverable of $9.7 million (2006: $0). Retrocession contracts do not relieve the Company from its obligations to policyholders. Failure of retrocessionaires to honor their obligations could result in losses to the Company. The Company regularly evaluates the financial condition of its retrocessionaires. At September 30, 2007 the Company has loss recoverables of $1.8 million (2006: $0) with a retrocessionaire rated ''A (excellent)'' by A.M. Best Company. Additionally, the Company has loss recoverables of $5.7 million (2006: $0) with two unrated retrocessionaires. At September 30, 2007 the Company retains funds and other collateral from the unrated retrocessionaires for amounts in excess of the loss recoverable asset. The Company did not purchase any retrocessional coverage in 2006.

4.

Financial Instruments

Other Investments

Other investments include options as well as debt and equities for which fair value is not readily determined. Options are derivative financial instruments that give the buyer, in exchange for a

9

Table of Contents

premium payment, the right, but not the obligation, to either purchase from (call option) or sell to (put option) the writer a specified underlying security at a specified price on or before a specified date. The Company enters into option contracts to meet certain investment objectives. For these option contracts, the exchange acts as the counterparty to specific transactions and therefore bears the risk of delivery to and from counterparties of specific positions.

At September 30, 2007, included in other investments are the following securities:

	Cost	Unrealized gains/(losses)	Fair market value
Equities – unlisted	$ 6,008	$ 96	$ 6,104
Call options	341	275	616
Put options	2,676	(1,811)	865
	$ 9,025	$ (1,440)	$ 7,585

At December 31, 2006, included in other investments are the following securities:

	Cost	Unrealized gains/(losses)	Fair market value
Equities – unlisted	$ 4,032	$ (28)	$ 4,004
Call options	367	352	719
Put options	123	(123)	—
	$ 4,522	$ 201	$ 4,723

During the nine months ended September 30, 2007 and 2006, other-than-temporary impairment losses on unlisted equities of $323 and $808, respectively, were reported in net investment income, in the condensed consolidated statements of income.

5. Share capital

On May 30, 2007, the Company completed the sale of 11,787,500 Class A Ordinary Shares at $19.00 per share in an initial public offering. Included in the 11,787,500 shares sold were 1,537,500 shares purchased by the underwriters to cover over-allotments. Concurrently, 2,631,579 Class B Ordinary Shares were sold at $19.00 per share as part of a private placement. The net proceeds to the Company of the initial public offering and private placement were approximately $255.7 million after the deduction of underwriting fees and other offering expenses.

Additionally, during the nine months ended September 30, 2007, 108,160 restricted shares of Class A Ordinary Shares were issued to employees as part of the Company’s stock incentive plan. These shares contain certain restrictions relating to, among other things, vesting, forfeiture in the event of termination of employment and transferability. Each of these restricted shares will vest on March 15, 2010, subject to the grantee’s continued service with the Company. The Company also issued to certain directors, 13,264 restricted shares of Class A Ordinary Shares as part of the directors’ remuneration. Each of these restricted shares issued to certain directors contain similar restrictions to those issued to employees and these shares will vest on the earlier of the first anniversary of the shares issuance or the Company’s next annual general meeting, subject to the grantee’s continued service with the Company. Additionally, the Company issued 5,005 Class A Ordinary Shares representing the vesting of directors’ stock awards granted in 2004.

The Company recognizes compensation expense on a straight line basis over the vesting period using the fair value of the shares awarded, at the time of the grant. Fair value for 102,160 shares of restricted stock which were issued prior to the initial public offering, was determined based on the mid-point of anticipated book value multiples for the Company's initial public offering relative to the Company's diluted book value per share as of the grant date. Fair value for 19,264 shares of restricted stock, which were issued on May 24, 2007, was determined based on the initial public offering price of $19.00 per share.

The common shares of Company are listed on Nasdaq Global Select Market under the symbol ''GLRE''.

Table of Contents

On January 10, 2007, 1,426,630 Class B Ordinary Shares were transferred from Greenlight Capital Investors, LLC (''GCI'') to its underlying owners and automatically converted into an equal number of Class A Ordinary Shares on a one-for-one basis, upon transfer. The remaining Class B Ordinary Shares were transferred from GCI to David Einhorn, the Chairman of the Company's Board of Directors and a principal shareholder of the Company, and remained as Class B Ordinary Shares.

6. Related party transactions

Investment Advisory Agreement

The Company has entered into an Investment Advisory Agreement (the ''Investment Agreement'') with DME Advisors, L.P. (''DME''). DME is a related party and an affiliate of David Einhorn.

Pursuant to the Investment Agreement, a performance fee equal to 20% of the net income of the account managed by DME is payable, subject to a loss carry forward provision, to DME. Included in net investment income for the three months ended September 30, 2007 is a reduction in performance fee of $1.2 million (2006: $4.2 million). For the nine months ended September 30, 2007 performance fees totaled $0.1 million (2006: $10.3 million). At September 30, 2007 and December 31, 2006, $0.1 million and $14.6 million, respectively, remained payable.

Additionally, pursuant to the Investment Agreement, a monthly management fee equal to 0.125% (1.5% on an annual basis) of the account managed by DME is paid to DME. Included in net investment income for the three months ended September 30, 2007 are management fees of $2.4 million (2006: $1.0 million), and for the nine months ended September 30, 2007 $5.3 million (2006: $2.9 million). The management fees were fully paid as of September 30, 2007 and December 31, 2006.

Service Agreement

In February 2007, the Company entered into a service agreement with DME, pursuant to which DME will provide investor relations services to the Company for compensation of $5,000 per month (plus expenses). The agreement has an initial term of one year, and will continue for sequential one year periods until terminated by the Company or DME. Either party may terminate the agreement for any reason with thirty 30 days prior written notice to the other party.

Concurrent Private Placement Stock Purchase Agreement

On January 11, 2007 the Company entered into a stock purchase agreement to sell $50 million of Class B Ordinary Shares to David Einhorn concurrent with an initial public offering. This concurrent private placement which was completed on May 30, 2007, resulted in 2,631,579 Class B Ordinary Shares purchased by David Einhorn at $19.00 per share.

Other Transactions

Included in the condensed consolidated statements of income is interest income of $0 (2006: $0.8 million) relating to a related party promissory note issued by GCI in exchange for Class B Ordinary Shares. During year ended December 31, 2006 this promissory note was fully repaid by GCI, including both principal and interest.

7.

Commitments and contingencies

Operating Lease

Effective September 1, 2005, the Company entered into a five-year non-cancelable lease agreement to rent office space. The total rent expense charged for the three months ended September 30, 2007 was $23 (2006: $25). The total rent expense charged for the nine months ended September 30, 2007 was $67 (2006: $67).

Table of Contents

Underwriting Service Agreement

Effective September 1, 2007 the Company entered into a service agreement with an underwriting service provider. Under the terms of the agreement, the Company has committed to quarterly payments to the service provider for a minimum period of two years regardless of whether any contracts are bound through the service provider. If the contract is terminated after two years, the Company is obligated to make minimum payments for another two years to ensure any bound contracts are adequately run-off by the service provider. If no contracts are bound during the first two years, the agreement may be terminated with no further payment obligations.

The following is a schedule of future minimum payments required under the above commitments for the next five years:

Years ending December 31,	Total
2007	$ 148
2008	670
2009	425
2010	69
2011	—
	$ 1,312

Private Equity

Periodically, the Company makes investments in private equity vehicles. As part of the Company's participation in such private equity investments, the Company may make funding commitments. As of September 30, 2007, the Company had commitments to invest an additional $2 million in private equity investments.

Letters of Credit

Effective October 15, 2005, the Company signed a letter of credit agreement with a U.S. bank, for a facility of up to $200 million. The agreement renews automatically each year unless terminated.

Effective June 6, 2007, the Company signed a letter of credit agreement with a Cayman Islands incorporated bank, for a facility of up to $25 million. The agreement renews automatically each year unless terminated.

At September 30, 2007, letters of credit totaling $75.1 million (2006: $50.4 million) had been issued. At September 30, 2007, investments and cash equivalents with a fair market value of $129.2 million have been pledged as security against letters of credit issued.

Each of the credit facilities requires that the Company comply with covenants, including restrictions on the Company's ability to place a lien or charge on the pledged assets and restricts issuance of any debt without the consent of the letter of credit provider. The Company was in compliance with all the covenants of each of its letter of credit facilities as of September 30, 2007.

Litigation

In the normal course of business, the Company may become involved in various claims litigation and legal proceedings. As of September 30, 2007, the Company was not a party to any litigation or arbitration proceedings.

8. SEGMENT REPORTING

The Company manages its business on the basis of one operating segment, Property & Casualty Reinsurance.

The following tables provide a breakdown of the Company's gross premiums written by line of business and by geographic area of risks insured for the periods indicated:

Table of Contents

Gross Premiums Written by Line of Business

	Three Months Ended September 30, 2007		Three Months Ended September 30, 2006		Nine Months Ended September 30, 2007		Nine Months Ended September 30, 2006	
	($ in millions)		($ in millions)		($ in millions)		($ in millions)	
Homeowners’	$ 8.7	44.0 %	$ 22.5	91.6 %	$ 39.6	32.1 %	$ 22.5	62.1 %
Professional Liability	—	—	—	—	27.2	22.1	—	—
Health	0.2	1.1	—	—	15.0	12.1	—	—
General Liability	—	—	—	—	14.5	11.8	—	—
Property Catastrophe	7.5	37.9	—	—	17.5	14.2	9.9	27.3
Medical Malpractice	—	—	—	—	3.7	3.0	—	—
Casualty Clash	3.1	15.4	2.1	8.4	5.5	4.4	2.0	5.6
Marine	—	—	—	—	—	—	1.8	5.0
Motor	0.3	1.6	—	—	0.3	0.3	—	—
	$ 19.8	100.0 %	$ 24.6	100.0 %	$ 123.3	100.0 %	$ 36.2	100.0 %

Gross Premiums Written by Geographic Area of Risks Insured

	Three Months Ended September 30, 2007		Three Months Ended September 30, 2006		Nine Months Ended September 30, 2007		Nine Months Ended September 30, 2006	
	($ in millions)		($ in millions)		($ in millions)		($ in millions)	
USA	$ 9.2	46.7 %	$ 22.5	91.6 %	$ 75.8	61.5 %	$ 28.8	79.6 %
Worldwide(1)	10.6	53.3	2.1	8.4	44.7	36.3	2.0	5.6
Europe	—	—	—	—	2.2	1.7	3.5	9.7
Caribbean	—	—	—	—	0.6	0.5	0.5	1.4
Japan	—	—	—	—	—	—	1.4	3.7
	$ 19.8	100.0 %	$ 24.6	100.0 %	$ 123.3	100.0 %	$ 36.2	100.0 %

(1) ‘‘Worldwide’’ risk comprise individual policies that insure risks on a worldwide basis.

9. SUBSEQUENT EVENT

On November 8, 2007, the Company accepted an amendment to the letter of credit facility agreement with a U.S. bank which increases the existing letter of credit facility from $200 million to $400 million with retroactive effect as of August 28, 2007. The amended letter of credit facility will be automatically renewed annually unless terminated.

Table of Contents

Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

References to ''we,'' ''our,'' ''our company,'' ''Greenlight Re,'' or the ''the Company'' refer to Greenlight Capital Re, Ltd. a wholly-owned subsidiary, Greenlight Reinsurance, Ltd., unless the context dictates otherwise. References to our ''Ordinary Shares'' refers collectively to our Class A Ordinary Shares and Class B Ordinary Shares.

The following is a discussion and analysis of our results of operations for the three and nine months ended September 30, 2007 and 2006 and financial condition as of September 30, 2007 and December 31, 2006. This discussion and analysis should be read in conjunction with our audited consolidated financial statements and related notes thereto contained in our prospectus dated May 24, 2007 filed with the Securities and Exchange Commission, or SEC.

Special Note About Forward-Looking Statements

Certain statements in Management's Discussion and Analysis (''MD&A''), other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are ''forward-looking statements'' within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words ''believe,'' ''project,'' ''expect,'' ''anticipate,'' ''estimate,'' ''intend,'' ''strategy,'' ''plan,'' ''may,'' ''should,'' ''will,'' ''would,'' ''will result,'' and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section entitled ''Risk Factors'' (refer to Part II, Item 1A). We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise. Readers are cautioned not to place undue reliance on the forward looking statements which speak only to the dates on which they were made.

We intend to communicate events that we believe may have a material adverse impact on the Company's operations or financial position, including property and casualty catastrophic events and material losses in our investment portfolio, in a timely manner through a public announcement. Other than as required by the Securities Exchange Act of 1934, as amended, we do not intend to make public announcements regarding events that we do not believe, based on management's estimates and current information, will have a material adverse impact to the Company's operations or financial position.

General

We are a Cayman Islands-based specialty property and casualty reinsurer with a reinsurance and investment strategy that we believe differentiates us from our competitors. Our goal is to build long-term shareholder value by selectively offering customized reinsurance solutions, in markets where capacity and alternatives are limited, which we believe will provide favorable long-term returns on equity.

We aim to complement our underwriting results with a non-traditional investment approach in order to achieve higher rates of return over the long-term than reinsurance companies that employ more traditional, fixed-income investment strategies. We manage our investment portfolio according to a value-oriented philosophy, in which we take long positions in perceived undervalued securities and short positions in perceived overvalued securities.

Because we have a limited operating history, period-to-period comparisons of our underwriting results are not yet possible and may not be meaningful in the near future. In addition, our historical investment results may not necessarily be indicative of future performance. In addition, due to the nature of our reinsurance and investment strategies, our operating results will likely fluctuate from period to period.

Table of Contents

Segments

We manage our business on the basis of one operating segment, property and casualty reinsurance, in accordance with the qualitative and quantitative criteria established by SFAS 131, ‘‘Disclosure about Segments of an Enterprise and Related Information’’. Within the property and casualty reinsurance segment, we analyze our underwriting operations using two categories:

- frequency business; and
- severity business.

Frequency business is characterized by contracts containing a potentially large number of smaller losses emanating from multiple events. Clients generally buy this protection to increase their own underwriting capacity and typically select a reinsurer based upon the reinsurer’s financial strength and expertise. We expect the results of frequency business to be less volatile than those of severity business from period to period due to its greater predictability. We also expect that over time the profit margins and return on equity for our frequency business will be lower than those of our severity business.

Severity business is typically characterized by contracts with the potential for significant losses emanating from one event or multiple events. Clients generally buy this protection to remove volatility from their balance sheets and, accordingly, we expect the results of severity business to be volatile from period to period. However, over the long term, we also expect that our severity business will generate higher profit margins and return on equity than those of our frequency business.

Outlook and Trends

Historically, the property and casualty market has experienced capacity shortages in certain product lines due to extended periods of competitive pricing, higher than expected losses and changes in rating agency capital requirements. Overall, the property and casualty market is currently experiencing a general downward pressure on pricing. However, while we expect that the property and casualty market will continue to see adverse pricing trends in the near term, certain market segments will likely experience capacity or structural shortages. We monitor market conditions in an effort to position ourselves to participate in future underserved or capacity-constrained markets as they arise and offer products that we believe will generate favorable returns on equity over the long term. Accordingly, our underwriting results and product line concentrations in any given period will likely fluctuate and may not be indicative of our future results of operations.

Critical Accounting Policies

Our consolidated financials statements are prepared in accordance with U.S. GAAP, which requires management to make estimates and assumptions that affect reported and disclosed amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. We believe that the critical accounting policies set forth in our prospectus dated May 24, 2007, as filed with the SEC, continue to describe the more significant judgments and estimates used in the preparation of our consolidated financial statements. These accounting policies pertain to revenue recognition, loss and loss adjustment expenses and investment valuation. If actual events differ significantly from the underlying judgments or estimates used by management in the application of these accounting policies, there could be a material effect on our results of operations and financial condition.

15

Table of Contents

Results of Operations

For the Three and Nine Months Ended September 30, 2007 and 2006

Our net income decreased by $19.6 million for the three months ended September 30, 2007 as compared to the same period in 2006 due to a decrease of $21.4 million in investment income which was partially offset by income generated from expanded underwriting operations. Our investment portfolio reported a net loss of $4.8 million, a loss of 0.8%, for the third quarter 2007 as compared to $16.6 million investment income, a gain of 6.2%, for the third quarter of 2006.

Our net income decreased by $33.5 million for the nine months ended September 30, 2007 as compared to the same period in 2006 primarily as the result of a decrease of $40.3 million in investment income. Due to investment losses being reported in the first and third quarters of 2007, our investment return year to date is 1.6% as compared to a return of 17.5% during the previous nine month period. This decrease in income during the first nine months of 2007 was partially offset by higher income being reported from our underwriting operations, which commenced in April 2006.

One of our primary financial goals is to increase the long-term value in fully diluted book value per share. During the three months ended September 30, 2007, fully diluted book value decreased by $0.03 per share or 0.2% to $15.78. For the nine months ended September 30, 2007, fully diluted book value increased by $1.51 per share, or 10.6%, which includes the increase associated with our initial public offering.

Premiums Written

Details of gross premiums written are provided below ($ in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Frequency	$ 9,228	$ 22,498	$ 73,029	$ 22,498
Severity	10,538	2,063	50,246	13,725
Total	$ 19,766	$ 24,561	$ 123,275	$ 36,223

We expect quarterly reporting of premiums written to be volatile as our underwriting portfolio continues to develop. Additionally, the composition of premiums written between frequency and severity business will vary from quarter to quarter depending on the specific market opportunities that we pursue. The volatility in premiums is reflected in the premiums written for frequency business when comparing the three month periods ending September 30, 2007 and 2006. A large homeowners' policy incepted during the third quarter 2006 which significantly increased that period's reported premiums. The increase in premiums written for severity business during the three months ended September 30, 2007 as compared to the same period in 2006 is primarily the result of a large property catastrophe contract that incepted in the third quarter of 2007.

For the nine months ended September 30, 2007, the increase in premiums written for frequency business compared to the same period in 2006 was due to the fact that no frequency contracts were written until the third quarter of 2006 while a number of frequency contracts were entered into throughout the nine months ended 2007. Similarly premiums written for severity business in 2007 reflects the full nine months of underwriting whereas the 2006 comparative reflects premiums written from April 2006 (commencement of our underwriting operations) to September 30, 2006. A detailed analysis of gross premiums written by line of business can be found in Note 8 to the interim condensed consolidated financial statements.

We entered into a total of three retrocessional contracts for the nine months ended September 30, 2007 relating to the risks assumed from two frequency reinsurance contracts. We did not purchase any retrocessional coverage in 2006.

Table of Contents

Details of net premiums written are provided below ($ in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Frequency	$ 9,019	$ 22,498	$ 44,543	$ 22,498
Severity	10,538	2,063	50,246	13,725
Total	$ 19,557	$ 24,561	$ 94,789	$ 36,223

Our severity business includes contracts that contain or may contain natural peril loss exposure. As of September 30, 2007, our maximum aggregate loss exposure to any series of natural peril events was $77.8 million. For purposes of the preceding sentence, aggregate loss exposure is equal to the difference between the aggregate limits available in the contracts that contain natural peril exposure and reinstatement premiums for the same contracts. In addition, the maximum aggregate loss exposure to the portfolio can not be realized unless a natural peril event or series of events impacts more than one peak zone. We categorize peak zones as: United States, Europe, Japan and the rest of the world. The following table provides single event loss exposure and aggregate loss exposure information for the peak zones of our natural peril coverage as of the date of this filing ($ in thousands):

Zone	Single Event Loss	Aggregate Loss
United States(1)	$ 50,219	$ 65,719
Europe	52,549	68,820
Japan	38,331	54,601
Rest of the world	25,942	42,213
Maximum Aggregate	52,549	77,820

(1) Includes the Caribbean

Net Premiums Earned

Net premiums earned reflects the pro rata inclusion into income of net premiums written over the life of the reinsurance contracts. Details of net premiums earned are provided below ($ in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Frequency	$ 22,390	$ 6,053	$ 58,807	$ 6,053
Severity	8,322	3,988	17,798	6,401
Total	$ 30,712	$ 10,041	$ 76,605	$ 12,454

The increase in net premiums earned is attributable principally to increased premiums written and earned from the developing underwriting portfolio for both the three and nine months ended September 30, 2007, when compared to the corresponding 2006 periods.

Losses Incurred

Losses incurred include losses paid and changes in loss reserves, including reserves for losses incurred but not reported, or IBNR, net of actual and estimated loss recoverables. Details of losses incurred are provided below ($ in thousands):

17

Table of Contents

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Frequency	$ 9,689	$ 2,742	$ 28,855	$ 2,742
Severity	1,650	266	2,610	266
Total	$ 11,339	$ 3,008	$ 31,465	$ 3,008

The loss ratios for our frequency business were 43.3% and 49.1% for the three and nine month periods ended September 30, 2007, respectively. The loss ratio for our frequency business was 45.3% for both the three and nine month periods ended September 30, 2006.

We expect losses incurred on our severity business to be volatile from period to period. Losses incurred on the natural peril exposed portion of our severity business have benefited from benign natural peril loss experiences during all periods reported. Additionally, given the seasonality of wind exposure, we expect that the first six months of a calendar year will generally report lower losses incurred on natural peril business than the last six months of the year. The loss ratios for our severity business were 19.8% and 14.7% for the three and nine month periods ended September 30, 2007, respectively. The loss ratios for our severity business were 6.7% and 4.2% for the three and nine month periods ended September 30, 2006, respectively. The increase in the loss ratios during 2007 is primarily due to the different composition of the severity underwriting portfolio. During the periods ended in 2006 the severity underwriting portfolio was composed entirely of natural peril business and with benign natural peril loss experience, very low loss ratios were reported. This contrasts with the current severity underwriting portfolio which also includes casualty and liability exposures in addition to natural peril risks, which account for the increase in the reported loss ratios.

There were no significant developments of prior year reinsurance reserves during either the three or nine month periods ended September 30, 2007.

Losses incurred in the current period can be further broken down into losses paid and changes in loss reserves. Losses incurred for the three and nine months ended September 30, 2007 and 2006 were comprised as follows ($ in thousands):

	Three months ended September 30, 2007			Nine months ended September 30, 2007		
	Gross	Ceded	Net	Gross	Ceded	Net
Losses paid	$ 4,372	$ (1,587)	$ 2,785	$ 6,766	$ (2,238)	$ 4,528
Increase (decrease) in reserves	10,747	(2,193)	8,554	34,399	(7,462)	26,937
Total	$ 15,119	$ (3,780)	$ 11,339	$ 41,165	$ (9,700)	$ 31,465

	Three months ended September 30, 2006			Nine months ended September 30, 2006		
	Gross	Ceded	Net	Gross	Ceded	Net
Losses paid	$ 1,136	$ (—)	$ 1,136	$ 1,136	$ (—)	$ 1,136
Increase (decrease) in reserves	1,872	(—)	1,872	1,872	(—)	1,872
Total	$ 3,008	$ (—)	$ 3,008	$ 3,008	$ (—)	$ 3,008

Acquisition Costs

Acquisition costs represent the amortization of commission and brokerage expenses incurred on contracts written as well as profit commissions and other underwriting expenses which are expensed when incurred. Deferred acquisition costs are limited to the amount of commission and brokerage expenses that are expected to be recovered from future earned premiums and anticipated investment income. Details of acquisition costs are provided below ($ in thousands):

18